

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 EB-11 TRSE-00 OMB-01

DRC-01 FRB-02 /171 W

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R 101525Z DEC 73

FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 5062

INFO USDOC WASHDC

AMEMBASSY LONDON

AMEMBASSY ROM*

US *SSION NATO

LIMITED OFFICIAL USE VALLETTA 2432

E.O. 11652: ADS DECLAS 12/10/74

TAGS: EFIN, MT, UK

SUBJ: BANK LIQUIDITY CRISIS

REF: A. VALLETTA 71 (NOTAL)

B. VALLETTA A-163, DECEMBER 11, 1972 (NOTAL)

1. THE SUDDEN DEATH DUE TO HEART ATTACK ON NOV 27 OF NATIONAL BANK OF MALTS DIRECTOR FRANK CASSAR TORREGGIANI FOLLOWING A HEATED FOUR HOUR MEETING IS BELIEVED BY LOCAL COMMERCIAL SOURCES TO HAVE PROVOKED A RUN ON THE BANK WHICH HAS RESULTED IN A SERIOUS LIQUIDITY CRISIS.

2. THE OVERALL COMMERCIAL BANK LIQUIDITY RATIO HAD ALREADY DROPPED FROM A HIGH OF 45.8 IN*APRIL TO 33.9 IN OCTOBER, ACCORDING TO CENTRAL BANK OF MALTA'S STATISTICS. THE SEPTEMBER ISSUE OF THE CENTRAL BANK'S

QUARTERLY REVIEW ATTRIBUTES THE MARKET FALL IN LIQUIDITY RATIOS TO THE CHANNELLING OF SURPLUS LIQUID FUNDS INTO OVERSEAS

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INVESTMENTS. IN THE PARTICULAR CASE OF THE NATIONAL BANK

OF MALTA GROUP, WHICH INCLUDES THE NATIONAL BANK, THE SCICLUNAS BANK AND THE TAGLIAFERRO BANK, THE GROUP IS BELIEVED BY LOCAL BANKING SOURCES TO HAVE OVER EXTENDED ITSELF DURING THE LATE 1960'S BUILDING BOOM AND THROUGH OVERDRAFTS TO LOCAL INDUSTRIES. THE RUN ON THE NATIONAL BANK OF MALTA GROUP CONSEQUENTLY NECESSITATED EMERGENCY ASSISTANCE FROM THE BRITISH CONTROLLED BARCLAYS BANK, WHICH FOLLOWS MORE CONSERVATIVE LENDING AND BANKING POLICIES.

3. SEVERAL OFFICIALS OF THE BARCLAYS BANK HAVE INDICATED, HOWEVER, THEY ARE UNDER INSTRUCTIONS NOT TO COMMENT ABOUT THE NATIONAL BANK'S PROBLEMS LEST RUMORS FURTHER HEIGHTEN THE GENERAL COMMERCIAL BANK LIQUIDITY PROBLEM IN MALTA. DURING THE MORNING OF DEC. 10, SOME BRANCHES OF THE NATIONAL BANK WERE REPORTED BY 9:30 TO BE OUT OF CASH AND UNABLE TO MEET WITHDRAWAL DEMANDS.

4. COMMENT: THE CURRENT LIQUIDITY CRISIS IS THE THIRD SERIOUS BLOW TO THE LOCAL BANKING INDUSTRY DURING THE PAST YEAR AND A HALF. IN EARLY DECEMBER LAST YEAR, THE BANK OF INDUSTRY, COMMERCE AND AGRICULTURE LTD. (BICAL) WAS FORCED TO CLOSE ITS DOORS AS A RESULT OF FRAUD AND SERIOUS MISMANAGEMENT BY TWO OF ITS DIRECTORS AND A NUMBER OF BANK OFFICIALS. APPROXIMATELY SIX MONTHS EARLIER, A SUBSIDIARY OF THE BRITISH LONDON AND COUNTY BANK WAS CLOSED BY THE GOM FOR VIOLATING CERTAIN BANKING ACT CONDITIONS.GETZ

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, BANK RESERVES, LIQUIDITY (MONETARY), DEVELOPMENT INVESTMENTS, FOREIGN INVESTMENTS, DEATH IN OFFICE
Control Number: n/a
Copy: SINGLE
Draft Date: 10 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973VALLET02432
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: VALLETTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731233/aaaaayep.tel
Line Count: 84
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. VALLETTA 71 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Sep-2001 by elyme>; APPROVED <26-Nov-2001 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK LIQUIDITY CRISIS
TAGS: EFIN, MT, UK, (TORREGGIANI, FRANK CASSAR)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005